



Carolina Telephone
Centel-North Carolina
Centel-Virginia
United Telephone-Southeast

James B. Wright
Senior Attorney

August 21, 1997

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

RE: Docket No. 97-00888 (Universal Service) and
Docket No. 97-00889 (Access Reform)
Sprint's Response to Hearing Officers Request for
Comments

Dear Mr. Waddell:

In response to the Hearing Officer's Notice of Proposed Schedule And Request For Comments distributed during the two July 28, 1997, Prehearing Conferences in the above dockets, enclosed are the original and thirteen copies of the Joint Comments of Sprint Communications Company L.P. and United Telephone-Southeast, Inc. in each docket.

The most significant matter addressed in these comments arises from the Tennessee Regulatory Authority's August 5, 1997 decision to develop its own cost study for intrastate Universal Service purposes.

The Federal Communications Commission has mandated that states which elect to develop their own studies must file them with the FCC by February 6, 1998 in order to be used as a basis for determining federal support beginning January 1, 1999 (See FCC Order of May 8, 1997 in CC Docket 96-45; paragraph 248). Sprint proposes a revised schedule which accommodates the rapidly approaching filing date established by the FCC regarding cost studies and allows the Authority and parties of record to better focus on the complex issues presented by the costing phase of these proceedings.

As a consequence of accelerating the schedule regarding the cost study phase, the non-costing phase of the

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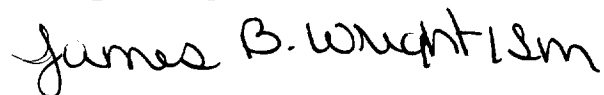
proceeding, which has no federal or state imposed time constraints, can be moved to a later time.

Unlike many states, there are no time deadlines imposed by Tennessee law regarding a new or alternate Universal Service funding mechanism since the creation of any such fund is discretionary with the TRA (TCA Section 65-5-207(c)). However, Sprint recommends the state USF be implemented as soon as practicable and no later than the federal USF.

Tennessee law requires rebalancing of the financial effect of the state USF (TCA Section 65-5-207(c)(7)). This requirement effectively means that the amount of the explicit subsidy support from the state USF must be established before any rate adjustment, including access charge adjustments to remove implicit USF subsidies, can be accomplished. Thus Sprint proposes a revised schedule in the Access Charge Reform proceeding as well.

Sprint believes the procedural schedules set forth at the Authority's July 28, 1997 prehearing conferences are administratively cumbersome for the Authority and the parties to this proceeding. Sprint respectfully asks that the Hearing Officer consider the revised schedule which it believes will enable full consideration of the issues while promoting administrative ease. Please contact me or Laura Sykora (919-554-7323) if you have any questions regarding this filing.

Very truly yours,

A handwritten signature in black ink that reads "James B. Wright". The signature is written in a cursive, slightly slanted style.

James B. Wright

JBW:mhh
Enclosures

cc: Laura Sykora
Steve Parrott
Bob Wallace
Carolyn Roddy
Counsel of Record

#11565

CERTIFICATE

Combined Service List
Universal Service (Docket No. 97-00888) and
Access Charge Reform (Docket No. 97-00889)

The undersigned hereby certifies that a copy of the Joint Comments of United Telephone-Southeast, Inc. and Sprint Communications Company L.P. filed in the above dockets is being provided to each of the following counsel of record, by placing a copy of the same in the United States Mail postage prepaid and addressed as follows:

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This 21st day of August, 1997 James B. Wright III #11873

UNIVERSAL SERVICE
DOCKET NO. 97-00888
COMMENTS OF SPRINT COMMUNICATIONS COMPANY L.P.
AND
UNITED TELEPHONE-SOUTHEAST, INC. (SPRINT)

PRELIMINARY ISSUES

A. Cost Model Issue:

As stated above, the TRA must notify the FCC by August 15, 1997, if the TRA decides to develop its own cost study. At the August 5, 1997 TRA Conference, the Directors will consider whether Tennessee should develop its own cost study for Universal Service, or work with the FCC to develop a model suitable for Tennessee. The TRA Staff expects to recommend working with the FCC on a forward looking cost model suitable to Tennessee.

RESPONSE:

Sprint supports the Tennessee Regulatory Authority's decision in the August 5, 1997 Conference to develop its own cost model suitable to Tennessee. Our complete comments on this issue were filed with the TRA August 1, 1997.

B. Proposed Phase 1 & Phase 2 of Issues:

It has been proposed that Universal Service be processed in two phases. Phase 1 would involve all issues not requiring cost and revenue comparisons. Phase 2 would involve the computation of Universal Service costs and determination of explicit and implicit subsidies. Under this two phase approach, if Access Charge was consolidated with Universal Service, Access Charge Reform would be considered during Phase 2. Parties are welcome to comment on the proposed separation of issues.

RESPONSE:

Sprint supports processing Universal Service in two phases; however, as indicated in Sprint's cover letter and proposed revised schedule, we recognize the rapidly approaching FCC date of February 6, 1998 for states, such as Tennessee, who have elected to develop their own studies to file them with the FCC. Therefore, Sprint proposes accelerating the schedule regarding the cost study phase and moving the non-costing phase of the proceeding, which has less stringent time constraints, to a later

time. Sprint believes that Access Reform should be handled in a separate rate design proceeding.

C. Proposed Schedule

Attached to this request is a proposed schedule for Phase 1 and Phase 2 to be utilized in this docket. Parties may comment on the proposed separation of issues.

RESPONSE:

In keeping with Sprint's proposal to accelerate the cost study phase of Universal Service and the separation of Universal Service from Access Reform proceedings, we are submitting revised schedules on these proceedings for consideration.

D. Consolidation:

Some potential participants, in their initial comments, suggested that the Universal Service Docket No. 97-00888 should be consolidated with the Access Charge Reform Docket No. 97-00889. Please comment on whether consolidation should be considered.

RESPONSE:

Sprint proposes that Universal Service Docket No. 97-00888 and Access Charge Reform Docket No. 97-00889 be handled in separate proceedings. Tennessee law requires rebalancing of the financial effect of the state USF (TCA Section 65-5-207). This requirement effectively means that the explicit subsidy support from the USF must be established before any rate adjustment, including access charge adjustments to remove implicit USF subsidies, can be accomplished.

E. Regulations Contemplated:

Do the participants in this docket contemplate, that ultimately, the findings of the TRA regarding Universal Service will need to be incorporated in rules and regulations of the TRA?

RESPONSE:

Because an explicit funding approach to Universal Service has not been the premise from which existing rules and regulations have been established, Sprint recommends a review of all rules and regulations in view of the goals of T.A. 96 and the addition, revision, or deletion of language not in compliance with the current environment.

F. Non-rural and Rural Carriers:

Pursuant to the FCC Order 97-157, rural carriers will not see changes in Universal Service support before January 1, 2001 (Paragraph 204 of the Order). There is a Joint Board being formed at the FCC level to address the issues unique to rural carriers. Therefore, should there be a bifurcation of the non-rural and rural Universal Services issues and leaving the rural Universal Service issues to be considered at a later date? Please comment on this proposal.

RESPONSE:

Even though rural carriers will not see changes in Federal Universal Service support before January 1, 2001, they will be subject to precedent-setting decisions that will be rendered during these proceedings. It is Sprint's position that rural carriers should be involved in each step and should be given every opportunity to participate in each phase of these proceedings.

G. Legal Framework:

Below is a request for comments on the definition of Universal Service. If the parties foresee that additional legal issues need to be resolved, please submit those issues along with your position on those issues with your comments.

ISSUES FOR CONSIDERATION

IV. Definition of Universal Service:

Under Tennessee law, Universal Service is defined in Tenn. Code Ann. § 65-5-207(a). The Telecom Act section 254(c) defines Universal Service.

Under section 254(f), the Act provides a State may adopt regulations "not inconsistent with the Commission's rules to preserve and advance universal service."

A. ISSUE: Is Tennessee's definition under Tenn. Code Ann. § 65-5-207(a), consistent with the Federal Act's definition of Universal Service? If no, is Tennessee's definition preempted by the Federal Act?

RESPONSE:

Sprint believes that Tennessee's definition under TCA 65-5-207(a) is inconsistent with the Federal Act's definition in that Tennessee defines Universal Service as "... residential Basic Local Exchange Telephone Service ..."; and Basic Local Exchange Telephone Services are "telecommunications services which are comprised of an access line, dial tone, touch-tone and usage provided to the premises

for the provision of two-way switched voice or data transmission over voice grade facilities of residential customers or business customers within a local calling area, Lifeline, Link-Up Tennessee, 911 Emergency Services and educational discounts existing on the effective date of the act . . ." (TCA 65-5-208).

The FCC Order 97-157 defines Universal Service as " . . . single-party service; voice grade access to the public switched network; DTMF signaling or its functional equivalent; access to emergency services; access to operator service; access to interexchange service; access to directory assistance; and toll limitation services for qualifying low-income consumers."

In order to comply with T. A. 96 and the FCC Order, the Tennessee State law should be revised to add single connection business service to their definition of Universal Service.

B. ISSUE: Should the TRA recommend to the Tennessee legislature that they adopt the Federal definition of Universal Service?

RESPONSE:

Given the language in Section 254(f) of the Telecom Act and the FCC's subsequent definition of Universal Service, the TRA should recommend to the Tennessee legislature that they revise the Tennessee Code to add single connection business service to Tennessee's definition.

C. ISSUE: Whether the Federal or Tennessee definition of Universal Service or some combination of both is followed, what services should be provided?

RESPONSE:

In accordance with FCC Order 97-157, Paragraphs 61 and 95, the following services should be provided under Universal Service: single-party residence and single connection business service, voice grade access to the public switched network, DTMF signaling or its functional equivalent, access to emergency services, access to operator services, access to interexchange service, access to directory assistance, and toll limitation services for qualifying low-income consumers.

D. ISSUE: Should the TRA provide for additional support under a Tennessee mechanism, for services in addition to those set forth by the FCC?

RESPONSE:

Sprint believes that those current discounts to educational institutions and libraries (e.g. ISDN, Educational T-1, In-classroom Computer Access, etc.) should be included in the services for which explicit support is provided under a Tennessee mechanism. No further services should be supported by the Tennessee mechanism at this time.

E. ISSUE: Should the TRA adopt specific procedures for passing upon "exceptional circumstances" as set forth in paragraphs 89-92 of the FCC order?

RESPONSE:

Sprint believes that the TRA should adopt specific procedures for passing upon "exceptional circumstances" regarding the ability of certain carriers to provide all elements of Universal Service as set forth in paragraphs 89-92 of the FCC Order.

F. ISSUE: Are there any telephone companies that will not be able to offer all the elements of Universal Service by the end of 1998? (e.g. toll blocking) If this is a problem, what steps are needed to remedy the situation?

RESPONSE:

Sprint currently offers all elements of Universal Service and believes that all elements should be offered by any telecommunications provider anticipating 100% support from a Universal Service Fund, subject to whatever procedures for exceptional circumstances the TRA adopts .

V. Affordability:

A. Define and consider affordability of rates:

Section 254(b)(1) of the Telecom Act provides that, "quality services should be available at just, reasonable, and affordable rates." The definition of affordability contains both an absolute component "to have enough or the means for", which takes into account an individual's means to subscribe to Universal Service; and a relative component "to bear the cost of without serious detriment", which takes into account whether consumers are spending a disproportionate amount of their income on telephone service.

1. **ISSUE:** Provided that existing rates were set to the "just and reasonable" standard pursuant to Tenn, Code Ann. § 65-5-201, is there an assumption that current rates are set at an affordable level?

RESPONSE:

Sprint believes that prices for basic service should be allowed to approach costs as closely as possible. This is the economically efficient solution that comes closest to a market-based outcome. However, the common belief is that in certain areas those costs are so high that the corresponding cost-based price would not be affordable to the customer. As a result, the customer might decline telephone service, thereby defeating the goal of maximizing the number of people on the network and achieving universal access to telephone service. This is the basis for the existence of the high-cost fund, and at the heart of the notion of affordability. Also, the existence of such programs as Link-up and Lifeline create affordable options for low income consumers.

Sprint believes that as prices for basic service approach cost, affordability can be maintained. Tennessee Code [TCA 65-5-207(c)(8)(ii)] gives the TRA the ability to adjust rates to "... the extent to which rates for residential Basic Local Exchange Telephone Service should be required to meet the standards of Section 65-5-208(c)."

2. **ISSUE:** Does the existence of programs to support low income consumers, further the argument that current rates meet the affordability requirement in Tennessee?

RESPONSE:

Refer to the Response to Item 1 above.

3. **ISSUE:** Are there other factors that should be considered?

RESPONSE:

Following are the non-rate factors that should be considered in establishing an affordable rate: subscribership levels, range of local calling area, community of interest and ability to contact essential service providers, per capita income of local or regional area, cost of living, and population density.

B. **ISSUE:** The FCC did not choose to adopt a nationwide rate for Universal Service. Should Tennessee adopt a statewide universal rate?

RESPONSE:

Sprint supports the adoption of an affordable rate standard for Universal Service and believes that rates should be adjusted to that standard. To the extent that

consumers have income needs, those needs will be addressed by explicit Lifeline programs.

C. ISSUE: Define explicit subsidy.

PROPOSAL FOR COMMENT: Explicit subsidy is a support that is calculable and identifiable vs. implicit subsidy which generally means there is a support but the exact amount of that support has not been determined. Is there a more appropriate definition?

RESPONSE:

Sprint agrees with the TRA's definition of "explicit" and would further clarify that the explicit subsidy should not only be explicit to the industry but also to the end-user.

D. ISSUE: How may complaints filed on the affordability of intrastate rates be addressed.

PROPOSAL REQUESTED: The FCC identifies several components to be considered when determining affordability of rates, such as subscribership levels, size of local calling area, consumer income level, cost of living, etc. What procedures would be least burdensome on carriers and the TRA, and would provide the information necessary to determine if rates are affordable on an ongoing basis?

RESPONSE:

Price regulated companies are subject to TCA 65-5-209(a) which states, "Rates for telecommunications services are just and reasonable when they are determined to be affordable as set forth in this Section. Using the procedures established in this section, the Commission shall ensure that rates for all Basic Local Exchange Telephone Services and Non-Basic Services are affordable on the effective date of price regulation for each Incumbent Local Exchange Telephone Company."

VI. Carriers Eligible for Universal Service Support

A. ISSUE: Define carrier of last resort.

PROPOSAL FOR COMMENT: The Staff defines carrier of last resort as the carrier ultimately responsible for the provision of telephone service including the provision of Universal Servicecore elements in a given area. Is there a better definition?

RESPONSE:

Sprint agrees with the Staff's definition of carrier of last resort.

B. ISSUE: Determine if a carrier of last resort designation is necessary.

PROPOSAL FOR COMMENT: The designation of a carrier of last resort for a given region is necessary to ensure that all Tennessee consumers are provided with telecommunication services. If no carrier of last resort is designated there is the potential danger of some consumers not being served. At what point, if any, would carrier of last resort designation become unnecessary?

RESPONSE:

In accordance with FCC Order 97-157, Paragraph 132, "Section 214(e) also contains provisions governing a carrier's relinquishment of its eligible carrier designation in areas served by more than one eligible carrier. The statute requires states to permit eligible carriers to relinquish their designation after giving the state notice. The statute requires remaining eligible carriers to serve the relinquishing carrier's customers and requires the relinquishing carrier to give notice sufficient to permit remaining carriers to construct or purchase facilities, if necessary."

C. ISSUE: What mechanism should be put in place if a carrier proposes to withdraw service.

PROPOSAL FOR COMMENT: It appears that mechanisms need to be developed to address the possibility that a carrier of last resort may desire to withdraw service in one or all regions which it serves. Allowing a carrier of last resort to withdraw needs to be based on specific and predictable criteria. At a minimum, the Staff proposes that no carrier of last resort should be allowed to withdraw service prior to the designation of another carrier to serve as the carrier of last resort. Do you have any suggestions on the criteria that needs to be established in order to allow a carrier to withdraw as carrier of last resort?

RESPONSE:

As stated in the response to Item B above, the FCC Order is specific as to the statute's requirements for the relinquishment of the eligible carrier designation. The ILEC is the carrier of last resort initially and would qualify as an eligible telecommunications carrier under Section 214(e) of the Federal Act.

D. ISSUE: What criteria should be used to designate eligible telecommunication carriers?

PROPOSAL FOR COMMENT: The FCC concluded that the plain language of section 214(e) precludes adoption of additional eligibility criteria beyond those enumerated in that section. Therefore, the FCC adopted without expansion the statutory criteria set out in section 214(e), as the rules governing eligibility. The Staff proposes to use the eligibility criteria of section 214(e) to designate eligible telecommunication carriers. Do you agree with proposal?

RESPONSE:

Sprint supports using the eligible telecommunications carrier criteria set forth in Section 214(e) of the Federal Act.

E. ISSUE: Should Universal Service support be provided to cellular carriers and resellers.

PROPOSAL FOR COMMENT: The FCC adopted without expansion the statutory criteria set out in section 214(e) as the rules governing eligibility. The FCC interpreted the term "facilities" in section 214(e)(1) to mean any physical components of the telecommunications network that are used in the transmission or routing of the services designated for support under section 254(c)(1). The FCC further concluded that a carrier that offers any of the services designated for Universal Service support, either in whole or in part, over facilities obtained as unbundled network elements pursuant to section 251(c)(3) satisfies the "own facilities" requirement of section 214(e). The staff recommends that the TRA use the criteria set forth by the FCC and to the extent that cellular carriers or resellers meet these criteria, they should be provided Universal Service support. Do you agree with this recommendation?

RESPONSE:

Sprint agrees in part with the Staff's recommendation. Sprint agrees that cellular carriers who satisfy the facilities requirement should receive USF support. Sprint disagrees that resellers purchasing wholesale services should be eligible for USF support.

On July 17, 1997 Sprint filed a Petition for Reconsideration with the FCC regarding the rules for existing USF support and eligibility for USF support for carriers which provide service through resale of wholesale LEC services. Regarding the level of facilities required to satisfy the facilities requirement of the Act, the FCC found in its Order dated May 8, 1997, that a carrier could satisfy the facility requirement by providing its own access to operator services, and obtaining the remainder of the service through resale. The implication (if not the intent) of this definition is that a CLEC can qualify for USF support if it resells ILEC basic services, but provides its own operator services. Sprint asserts that the result would be to both undermine the Commission's determination that USF support should not be afforded to resellers and to place the underlying facility carrier at significant financial risk. Sprint has, therefore, urged the

FCC to reconsider its definition of the level of facilities a carrier is required to provide to receive USF support.

F. ISSUE: What is the appropriate role of cooperatives in this proceeding?

PROPOSAL FOR COMMENT: Section 254(f) states, "Every telecommunications carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, in a manner determined by the State to the preservation and advancement of Universal Service in that State." It is clear that cooperatives will contribute to and receive support from the Universal Service support fund. Because the cooperatives will be included in the results of this proceeding, the Staff believes that cooperatives should be encouraged to participate fully in the Universal Service docket. Do you agree?

RESPONSE:

Sprint agrees with the TRA's proposal.

VII. High Cost Support

A. ISSUE: Should Tennessee perform its own forward looking cost study to determine intrastate Universal Service support? If not, should it work in conjunction with the FCC to determine methodology and inputs and adopt the FCC cost and revenue benchmark calculations? **Please note that comments on this issue are due August 1, 1997. Please see page 2, section A.**

PROPOSAL FOR COMMENT: As stated above, in "Preliminary Matters" the Directors of the TRA will consider the issue of whether Tennessee should develop its own cost study at the Conference scheduled for August 5, 1997. Therefore, if the parties desire to comment further on this issue, they should file those comments by August 1, 1997.

RESPONSE:

Sprint supports the TRA's decision in its August 5, 1997 Conference to develop its own cost model.

B. ISSUE: If it is determined that Tennessee will do a cost study, what would be the core elements? (i.e. residential, business, usage.).

RESPONSE:

In accordance with FCC Order 97-157, Paragraph 61, Sprint supports the definition of the core elements as: single-party service, voice grade access to the public switched network, DTMF signaling or its functional equivalent, access to emergency services, access to operator services, access to interexchange service, access to directory assistance, and toll limitation services for qualifying low-income consumers.

1. What area should be included in each cost study?

RESPONSE:

For non-rural companies the service area included in each cost study should be based on information publicly available which is the Census Block Group (CBG). CBG is preferred due to the reality that there are both high and low cost pockets within a wire center.

For a rural company Sprint supports the guidance of the FCC Order encouraging, states to disaggregate a non-contiguous rural telephone company into service areas composed of contiguous portions because some wireless carriers may not be able to provide service in non-contiguous areas of the rural LEC. In addition, a state or a carrier must seek FCC agreement that a service area definition different from a rural telephone company's study area would better serve the universal service principles (FCC 97-157, Paragraph 190).

2. The FCC requires deaveraging to the wire center serving area at least, and to areas if feasible. Is this appropriate?

PROPOSAL FOR COMMENT: FCC Order 97-157 sections 54.101 and 54.207 set forth the services designated for support and service areas. Is it appropriate for Tennessee to adopt these services? If not, what services do you believe should receive Universal Service support. Also please comment on how service areas may be defined in Tennessee.

RESPONSE:

In order to comply with T. A. 96 and the FCC Order, Sprint agrees with the FCC Order and the following services being designated for Universal Service support: residential and single connection business single party service, voice grade access to the public switched network, DTMF signaling or its functional equivalent, access to emergency services, access to operator services, access to interexchange service, access to directory assistance, and toll limitation services for qualifying low-income consumers. In addition, Sprint agrees that current intrastate educational services and Lifeline and Link-up programs should be designated for support.

Please reference the response to Item 1 above regarding how service areas should be defined.

C. ISSUE: What elements should be included in the revenue benchmark?

PROPOSAL FOR COMMENT: The Staff expects to use the elements that will be included in the national benchmark, (local, discretionary, interstate and intrastate access services, and other revenues used in the cost study). Do you feel these are the appropriate elements to be included in the benchmark?

RESPONSE:

Sprint supports a benchmark to the extent that it **DOES NOT** include discretionary features and ancillary enhanced service. Since the National Benchmark does include these services, we would not support it. Sprint believes that only intrastate revenues are appropriate for inclusion in the revenue benchmark since the state has jurisdiction only over intrastate revenues. Local basic service and an applicable subscriber line charge, that may be approved in the future, should be included.

VIII. Support for Low Income Consumers

A. ISSUE: Define a process to address any waiver requests of carriers to the no-disconnect rule.

PROPOSAL FOR COMMENT: The no-disconnect rule would prohibit disconnection of local service for Lifeline customers for non payment of toll charges. Despite the benefits of a no-disconnect rule for Lifeline consumers, the FCC recognized that state utility regulators would have the ability to grant carriers a limited waiver of the requirement under limited special circumstances. The Staff suggests that the TRA adopt the three requirements of the FCC for granting a waiver request. What is your position?

RESPONSE:

Sprint agrees with the adoption of the three requirements of the FCC for granting a waiver request.

The FCC is raising Lifeline support from \$3.50 to \$5.25. The FCC will match 1/2 of state support up to an additional \$1.75 which will provide for a maximum of \$7.00 federal support.

B. ISSUE: Determine if the current level of state discounts for Lifeline should be changed.

PROPOSAL REQUESTED: Currently, Tennessee provides \$3.50 per month support for Lifeline. At the state's current level of funding (\$3.50/month) the FCC will provide an additional \$7.00 in federal support for a total of \$10.50 in support. If this level of support is maintained, then procedures may be considered to prevent Lifeline customers from receiving 100% free service. For instances, should a minimum amount be charged to the Lifeline customer? Please comment.

RESPONSE:

In keeping with the concept set forth in FCC Order 97-157, Paragraph 355, the support "... in no case should exceed the Lifeline rate."

Tennessee has the option of reducing its monthly support amount, which in turn would reduce the federal funding. Any reduction in Tennessee's current funding of \$3.50 will result in a Federal reduction of one half of the amount of the Tennessee reduction, down to the minimum Federal funding amount of \$5.25. For example, Tennessee funds \$1.00, Federal minimum funding is \$5.25. Federal matching of 1/2 of state is \$.50. This would provide total support of \$6.75. Please comment.

C. ISSUE: Develop funding mechanisms.

PROPOSAL REQUESTED: The TRA requests comments from the parties on how funding for this support can be accomplished.

RESPONSE:

All telecommunications carriers and other providers offering telecommunications services within the State of Tennessee should contribute to the Universal Service Fund on the basis of their relative share of all intrastate retail "end user" telecommunications revenues generated by and/or billed to an end-user in the State. Sprint recommends a USF end-user surcharge which is the only way to be explicit to both the industry and the end-user customer.

X. Schools and Libraries

A. ISSUE: Determine if additional support for eligible schools and libraries is needed.

PROPOSAL REQUESTED: During the July 15, 1997, TRA agenda, the Directors adopted the FCC matrix for federal funding to schools and libraries. In addition to this federal discount, the state currently has ISDN, School Parent Telecommunications Service, in Classroom Computer Access Service and Distance Learning Video Transport Service discounts available to schools and libraries.

1. Do any parties believe that more discounts to schools and libraries should be offered in addition to the federal discount matrix and the four state discounted services?

RESPONSE:

Sprint believes the service offerings currently discounted to schools and libraries are appropriate for Universal Service support in addition to the FCC matrix for federal funding and that no further services should be added at this time. The existing state educational discounts are solely funded by the incumbent LECs. Current state discounts for schools and libraries should be state funded through the State Universal Service. In accordance with TCA 65-5-207(c)(5), the financial impact of this explicit funding through Universal Service mechanisms would result in rebalancing of rates of the service provider.

2. Should additional discounts to Internet services be provided by the state?

RESPONSE:

Sprint supports the Federal matrix of service qualifying for discount and does not believe that additional state discounts for Internet service should be provided.

B. ISSUE: Develop funding mechanisms if needed.

PROPOSAL REQUESTED: Costs studies need to be submitted on the current state discounted services to determine if, in fact, schools and libraries are receiving a subsidy. Additionally, any other state discounted services will need studies to determine subsidies. Once the subsidy amounts are known a fund must be established to support the discounts. The TRA requests comments from the parties on how funding for this support can be accomplished. Please be specific and provide your view on whether support for schools and libraries should come from the same source of revenues used to support other Universal Service items.

RESPONSE:

Consistent with the approach taken by the FCC in establishing support for educational services and for public and non-profit rural health care providers, the TRA should establish a separate fund for current intrastate educational discounts. The source of funding for this purpose should be based on all telecommunications carriers and other providers offering telecommunications services within the State of Tennessee contributing to the USF. Companies are deemed to be offering telecommunications service in Tennessee if such telecommunications is being offered "for a fee"; and such

telecommunications is being offered to an end user, or to such classes of users as to be effectively available to an end user.

C. ISSUE: Address as necessary any school and library petitions regarding pre-discount price.

PROPOSAL REQUESTED: The FCC noted that if schools and libraries believe the lowest corresponding price offered to them is unfairly high or low, they may seek recourse from the state. What procedures do you believe could be put in place to ensure that schools and libraries are offered at the lowest possible price. Also, if a school or library petitions the TRA regarding the price, what criteria should be used to determine if in fact the price is unreasonably high?

RESPONSE:

In accordance with FCC Order 97-157, Appendix I, the "lowest corresponding price is the lowest price that a service provider charges to non-residential customers who are similarly situated to a particular school, library, or library consortium for similar services."

XI. Support For Health Care Providers

A. ISSUE: Determine if additional intrastate support for eligible health care providers is needed.

PROPOSAL REQUESTED: The TRA requests comments from the parties on whether additional health care discounts are needed.

RESPONSE:

Sprint believes that the support provided by the FCC is sufficient for public and non-profit health care providers located in rural areas.

B. ISSUE: Develop needed funding mechanisms.

PROPOSAL REQUESTED: The TRA requests comments from the parties on how funding for this support can be accomplished.

RESPONSE:

Reference response to Item A above.

XIII. Administration of Support Mechanisms

A. ISSUE: Determine which companies qualify as non-rural carriers and are subject to 1/1/99 Universal Service support.

PROPOSAL FOR COMMENT: BellSouth and United Telephone Southeast are the only companies which the Staff has identified as non-rural carriers. Are there others?

RESPONSE:

Sprint agrees that BellSouth and United Telephone-Southeast are non-rural carriers.

B. ISSUE: Determine method for transition from current support to new support.

PROPOSAL REQUESTED: The new support mechanisms approved will be the determining factor of the impact on transition from old support to the new system. Since the fund administrator is responsible for maintaining the new fund, it may be appropriate to allow the administrator to design a system for the transition. Please provide your opinion on a transition process.

RESPONSE:

The statutory language in TCA 65-5-207(c)(5) requires rebalancing. This act requires the TRA to "determine the financial effect on each universal service provider caused by the creation or a modification of the universal service support mechanism, and rebalance the effect through a one-time adjustment of equal amount to the rates of that provider." Also please reference the revised procedural schedules submitted with these comments.

Sprint would note that it has filed a July 17, 1997 Petition For Reconsideration of the FCC's May 8 Order. Sprint expressed its concern that the impact of the new federal support plan will be to shift substantial costs to the intrastate jurisdiction. LECs currently receiving USF support will have no alternative but to seek to recover the additional costs reallocated to the intrastate jurisdiction either through increases in intrastate rates or through state USF funds.

Sprint believes that this places an undue and unwarranted burden on the state jurisdictions. Not only must states now absorb the jurisdictional shift in costs resulting from the new Federal USF plan, but they must also address, consistent with the mandate of the Telecommunications Act, the whole issue of intrastate subsidies and

universal service support. The reallocation of costs to the intrastate jurisdiction compounds the difficulty of the states' task. Sprint would encourage the TRA to register concern with the FCC.

C. ISSUE: Determine the structure of the intrastate Universal Service fund.

1. How will it be created?

RESPONSE:

Refer to Sprint's proposed procedural schedules.

2. Will it be consistent with or not consistent with the Federal fund?

RESPONSE:

The Federal Act indicates that "A State may adopt regulations not inconsistent with the Commission's rules to preserve and advance universal service. . . A State may adopt regulations to provide for additional definitions and standards to preserve and advance universal service within that State only to the extent that such regulations adopt additional specific, predictable, and sufficient mechanisms to support such definitions or standards that do not rely on or burden Federal universal service support mechanisms."

3. Who will contribute to it?

RESPONSE:

All telecommunications carriers and other providers offering telecommunications services within the State of Tennessee must contribute to the USF. Companies are deemed to be offering telecommunications services in Tennessee if such telecommunications services are being offered "for a fee"; and such telecommunications services are being offered to an end user, or to such classes of users as to be effectively available to an end user.

4. How often will contributions be made?

RESPONSE:

Contributions should be made on a monthly basis.

5. What basis should be used for contributions?

RESPONSE:

The basis for contributions should be the telecommunications carrier's relative share of intrastate retail "end-user" telecommunications revenues generated by and/or billed to an end-user in the State.

6. Who is eligible to receive support?

RESPONSE:

Sprint supports the eligibility criteria set forth in Section 214(e) of the Federal Act.

7. How funds will be distributed?

RESPONSE:

Funds should be distributed via a netting process.

8. How should the TRA ensure that the fund is non-discriminatory and competitively neutral?

PROPOSAL REQUESTED: The TRA requests comments from the parties on these specific issues regarding the structure of the intrastate Universal Service Fund.

RESPONSE:

To ensure that the fund is non-discriminatory and competitively neutral, contributions should be based on a telecommunications carrier's relative share of all intrastate retail "end-user" telecommunications revenues generated by and /or billed to an end user in the State; recovery of contributions must be explicit; the eligibility criteria set forth in Section 214(e) of the Federal Act should be met for support; and a neutral third party which is independent of any affected provider's interest should be designated as Administrator.

D. ISSUE: Determine notification requirements companies' certification of rural carrier status.

PROPOSAL REQUESTED: A carrier must notify the FCC and its' state Commission, that for purposes of Universal Service support determinations, it meets the definition of a rural carrier. Carriers should make such a notification each year prior to the beginning of the

Universal Service Fund payout period for that year. What procedures can be put in place to ensure that rural carriers satisfy this requirement?

RESPONSE:

The TRA has a certificated list of ILECs; if an ILEC is not classified as a non-rural carrier, they should have rural status. Also, the TRA can at its discretion conduct random compliance audits to ensure that rural carriers satisfy this requirement.

E. ISSUE: Determine need for public interest payphones and develop funding mechanisms, if required.

PROPOSAL REQUESTED: Please provide comments on what criteria you believe is necessary for determining the need for a public interest payphone. Funding for public interest payphones may come from various sources such as the Universal Service Fund or an additive or charge on payphone access lines. What type of funding mechanisms do you believe would be appropriate for funding of public interest payphones?

RESPONSE:

A separate docketed proceeding, Docket No. 97-00409, has been established to consider the reclassification of pay telephones. Sprint recommends that this issue be dealt with in the context of that proceeding.

F. ISSUE: Determine if the TRA should administer the intrastate Universal Service Fund.

PROPOSAL REQUESTED: Please provide comments.

RESPONSE:

The TRA or its designee should act as Administrator for the Tennessee Universal Service Fund. If the TRA chooses to delegate this task, the Administrator should be a neutral third party which is independent of any affected provider's interest.

G. ISSUE: Appoint intrastate Universal Service Fund Administrator.

PROPOSAL REQUESTED: What criteria should be established to determine qualifications as fund administrator?

RESPONSE:

The fund administrator should be a neutral third party which is independent of any affected provider's interest.

H. ISSUE: Determine if contributions to the Universal Service fund may be recovered by contributors, (i.e. passed on to end users).

PROPOSAL REQUESTED: The FCC adopted a contribution assessment methodology that is competitive neutral and easy to administer. Contributions will be assessed against end users telecommunication revenues, revenues derived from end users for telecommunications, and telecommunications services, including SLCs. Please provide comments.

RESPONSE:

Sprint recommends a USF end-user surcharge which is the only way to be explicit to both the industry and the end-user customer.

XIV. Other

A. ISSUE: Would the use of task forces, advisory committees, technical conferences and settlement conferences in this proceeding be helpful?

PROPOSAL REQUESTED: Some parties have commented that these groups would be helpful. If you believe these groups would be beneficial, explain where these groups or meetings make sense.

RESPONSE:

Sprint supports the use of technical conferences and open forums to familiarize the parties with the benefits of the BCPM and task forces and settlement conferences where the parties can determine areas where they have agreement on the issues.

B. ISSUE: Determine intrastate funding requirements for Tennessee Relay Center (TRC).

PROPOSAL REQUESTED: Currently, the intrastate costs of operating the TRC are divided between intraLATA and interLATA for the state. The intraLATA portion is funded by all LECs based on their proportionate share of intraLATA minutes of use and the interLATA portion is funded by all interexchange carriers based on their proportionate share of interLATA minutes of use. Options for funding the TRC could include the current system, through the Universal Service Fund, or establishment of a separate fund. Which option do you believe would be best? The current fund is administered by BellSouth. Do you believe BellSouth should continue as administrator of the TRC fund?

RESPONSE:

Sprint supports the establishment of a separate fund for funding the Telecommunications Relay Center and believes that a neutral third party should administer the TRC fund.

C. ISSUE: Determine effect of BST stay on Universal Service.

PROPOSAL REQUESTED: If the court remands the case back to the TRA, then the price regulation audit will have to be re-done to conform with the courts ruling, which in turn would effect implicit subsidy calculations. If the court supports the TRA's decision, then revenues of certain services will be lowered, thus reducing any implicit subsidies that may exist. Please provide your comments.

RESPONSE:

The parties involved in that proceeding are more familiar with legal status and should comment on this issue.

D. ISSUE: Determine any needed changes to TRA rules, state laws, etc.

PROPOSAL FOR COMMENT: Provide any necessary changes to TRA rules and/or State Laws to make them conform with the Federal Law.

RESPONSE:

The State Law needs to be revised to add single connection business service to their definition of Universal Service. The TRA rules should also be reviewed for potential change based on the rulings as a result of these proceedings.

E. ISSUE: Determine date that Universal Service will be re-addressed.

PROPOSAL REQUESTED: The FCC is convening a Federal-State Joint Board to review the definition of Universal Service on or before January 1, 2001. The Staff would recommend that an intrastate Universal Service proceeding be held immediately following the Joint Board's decision. Please provide your comments.

RESPONSE:

Sprint supports an intrastate Universal Service proceeding to be scheduled immediately following the Federal-State Joint Board's review and decision of the definition of Universal Service on or before January 1, 2001.

F. ISSUE: Determine and implement service quality standards.

PROPOSAL REQUESTED: The FCC determined that states may impose service quality standards that are competitively neutral and further the goals of Universal Service. Consistent with these requirements, what service quality standards do you feel are necessary?

RESPONSE:

As a price regulated local company, Sprint will adhere to the TCA 65-5-208(a)(1) to provide service " . . . at the same level of quality as is being provided on the effective date of this act."

G. ISSUE: Are embedded cost studies appropriate to determine implicit subsidies?

PROPOSAL FOR COMMENT: Implicit subsidies are the support that currently exists for universal service elements. This current support is determined based on embedded costs, therefore, the Staff believes embedded costs are appropriate to determine implicit subsidies. Do you agree?

RESPONSE:

The current support is not "based on" embedded costs. Current support is that amount of revenue for a given service that is above incremental cost which enables a multi-product firm to offer other services at prices below cost. While an incumbent LEC can perform cost analyses to determine those services whose revenues exceed their costs, it is impossible to determine the exact subsidy support for Universal Service since a portion of the revenue contribution from these services is also utilized to support other services which have been traditionally priced below cost in accordance with public policy goals.

In order to meet the requirement of the Telecom Act for "specific, predictable, and sufficient" Universal Service support mechanisms, the TRA should first determine the appropriate costing methodology to be utilized in determining the cost of Universal Service (Sprint supports a TELRIC approach), direct the incumbent LECs to complete a comparison of Universal Service revenues and cost, establish guidelines for companies to contribute to and draw from the new fund and then direct incumbent LECs to determine the net financial impact of the fund. Once the net financial impact of the Universal Service Fund is known, a LEC should be allowed to propose rate rebalancing plans, in accordance with TCA 65-5-207 (c) (5), to the TRA supported by the necessary cost studies to insure that proposed prices are not below the TELRIC for the service.

H. ISSUE: Determine method to calculate implicit subsidies (i.e. by element, group or category).

PROPOSAL FOR COMMENT: The Staff believes that implicit subsidies should be calculated in the most efficient and least burdensome manner. To facilitate this, the Staff prefers that implicit subsidies be calculated by service groups or categories. Please provide your comments.

RESPONSE:

Refer to Response for Item G above.

I. ISSUE: Determine effect of contracts between LECs (i.e. EAS, toll, private line, etc.) on subsidies.

PROPOSAL REQUESTED: Please provide comments.

RESPONSE:

Refer to Response for Item G above.

**PROPOSED SCHEDULE FOR UNIVERSAL SERVICE
PHASE 1
Cost Model**

Docket No. 97-00888

September 26, 1997	Pre-hearing Conference
October 6-10, 1997	Technical Conference (all cost models are presented)
October 20, 1997	Telcos provide cost studies
October 31, 1997	Discovery requests due
November 14, 1997	Discovery responses due
November 26, 1997	Direct testimony due
December 5, 1997	Rebuttal testimony due
December 15-19, 1997	Hearing
January 6, 1998	TRA Decision
February 6, 1998	TRA submits Tennessee Cost Model to FCC

**PROPOSED SCHEDULE FOR UNIVERSAL SERVICE
PHASE 2**

Non-Specific Cost Issues

Docket No. 97-00888

March 12, 1998	Pre-hearing Conference Issues Defined
March 23, 1998	Discovery requests due
April 17, 1998	Discovery responses due
May 1, 1998	Direct testimony due
May 11, 1998	Rebuttal testimony due
June 8-12, 1998	Hearings
July 7, 1998	TRA Decisions

ACCESS CHARGE REFORM
DOCKET NO. 97-00889
COMMENTS OF SPRINT COMMUNICATIONS COMPANY L.P.
AND
UNITED TELEPHONE-SOUTHEAST, INC. (SPRINT)

PRELIMINARY MATTERS

A. Proposed Schedule

Attached to this request is a proposed schedule to be utilized in this docket. Parties may comment on the proposed schedule.

RESPONSE:

For Access Charge Reform, Docket No. 97-00889, Sprint recommends a single rate design proceeding focused on both the structure of access charges and the elimination of implicit universal service subsidies. Tennessee law requires rebalancing of the financial effect of the state Universal Service Fund (USF) [TCA Section 65-5-207] which effectively means that the amount of the USF fund must be established before any rate adjustment, including access charge adjustments, can be accomplished.

B. Consolidation

Some potential participants, in their initial comments, suggested that the Universal Service Docket No. 97-00888 should be consolidated with Access Charge Reform Docket No. 97-00889. Parties may comment on this issue.

RESPONSE:

Sprint proposes that Universal Service Docket No. 97-00888 and Access Charge Reform Docket No. 97-00889 be handled in separate proceedings. Tennessee law requires rebalancing of the financial effect of the state USF (TCA Section 65-5-207). This requirement effectively means that the explicit subsidy support from the USF must be established before any rate adjustment, including access charge adjustments to remove implicit USF subsidies, can be accomplished.

C. Non-rural and Rural Carriers

Pursuant to the FCC Order 97-157, rural carriers will not see changes in Universal Service support before January 1, 2001 (Paragraph 204 of the Order). There is a Joint Board being formed at the FCC level to address the issues unique to rural carriers. Therefore, should there be a bifurcation of the non-rural and rural Access Charge Reform issues and leave the rural issues to be considered at a later date? Please comment on this proposal.

RESPONSE:

Based on Sprint's proposal that Universal Service be dealt with in two phases and Access Reform be dealt with in one phase, Sprint recommends that rural carriers be allowed to fully participate in all phases to the extent that they choose. All LECs within the state should be required to adopt the same costing methodology, regardless of the size of the LEC. If LECs are not required to adopt the same costing methodology, then rural carriers may have higher costs and thus their prices may be artificially inflated. Consequently, competition will not develop consistently across LEC territories. The TRA should require that all LECs adopt the same costing methodology. Issues, such as toll and EAS settlements, may have to be dealt with in the near term as a result of changes in local interconnection agreements between non-rural carriers.

ACCESS CHARGE REFORM ISSUES

I. Preliminary Legal Issues

- A. **ISSUE:** Should intrastate switched access rates in Tennessee be reduced once an alternative explicit universal service funding mechanism has been created?

RESPONSE:

If subsidies are found in the intrastate switched access rates, intrastate switched access revenue levels in Tennessee should be changed concurrent with the implementation of an alternative explicit universal service funding mechanism. Tennessee state law specifically requires rebalancing the effect of the creation of the state USF in TCA Section 65-5-207(c)(5). To implement changes in access revenue levels before or after the implementation of universal service funding mechanisms would create a disparity in the revenues received by the participating parties. For example, if access rates are reduced before a Universal Service mechanism is established, IXCs may get a windfall and if a Universal Service mechanism is established before access rates are reduced, LECs may get a windfall.

- B. ISSUE:** Should an incumbent local exchange company operating under a price regulation plan pursuant to T.C.A. § 65-5-209 be required to reduce its intrastate switched access rate?

RESPONSE:

An incumbent local exchange company operating under a price regulation plan pursuant to T.C.A. § 65-5-209 should be allowed to reduce its intrastate switched access rates as determined in the Universal Service docket in accordance with TCA Section 65-5-207.

- C. ISSUE:** Should BellSouth be required to reduce its intrastate switched access rates when application to operate under price regulation and has stayed BellSouth's price regulation?

RESPONSE:

TCA Section 65-5-207 would apply to BellSouth regardless of the type of regulation under which they operate.

- D. ISSUE:** In AT&T's response to the Hearing Officer's Notice for Comments they state the following:

"Any reformation of the Tennessee system is further complicated by the facts that:

1) the various ILECs are not under the same system of regulations: United Telephone-Southeast and the Citizens Companies are under price regulation plans pursuant to T.C.A. §65-5-209, the small independents are under rate of return regulation, and the status of BellSouth Telecommunications, Inc. is dependent on the results of the case pending in the Tennessee Court of Appeals;

2) the rules governing competing telecommunications service providers have not become effective and their access charges are reflected in their tariffs; and

3) all providers of Tennessee intrastate access services are not under the regulatory jurisdiction of the TRA, e.g. the telephone cooperatives. Nevertheless, there are certain features common to the various forms of Tennessee intrastate access charges, and the same general principles of law and policy apply."

Please comment on their statement and include a response whether you agree or disagree with all or portions of this statement. Further, elaborate on how the TRA may best address these potential problems.

RESPONSE:

The statements made by AT&T are factual and reflect issues that have existed for a period of time. For Item 1, while the regulated ILECs are not uniform in their manner of regulation, only two forms exist, price regulation and rate of return regulation. For Item 2, the rules for competing telecommunications service providers, while not officially approved, have been used as guidelines since their creation. For item 3, the telephone cooperatives only represent approximately 4% of the total access lines in Tennessee. The telephone cooperatives have not been under the jurisdiction of the TRA for other issues, however, they can choose to participate in any issues.

Overall the potential problems identified by AT&T have existed for quite some time and are reflective of the nature of the telecommunications industry. Through the Universal Service and Access Reform proceedings, the TRA may find resolutions for some of the issues, however, these proceedings should not be delayed to resolve issues that are inherent to an increasingly competitive industry.

II. Costs and Revenues

- A. **ISSUE:** What methodology should be used in calculating the cost of access services? Please include the reasons for such methodology.

RESPONSE:

A TELRIC-based costing methodology should be used for the pricing of access services. A TELRIC-based costing methodology incorporates a forward-looking costing strategy instead of an embedded base costing strategy. Forward-looking, incremental costs are included based on the ILEC's existing wire center locations and most efficient technology available. The costs are developed based on the investment necessary to replicate or provide the requested service based on current investment prices and growth parameters. FCC Order 96-325, CC Docket No. 96-98, paragraph 685, indicates that "this approach encourages facilities-based competition to the extent that new entrants, by designing more efficient network configurations, are able to provide the service at a lower cost than the incumbent LEC."

- B. **ISSUE:** Should costs be separated based on whether access is switched or dedicated?

RESPONSE:

Costs should be recovered in the manner in which they were incurred. Flat rate costs, such as the loop, should be recovered from flat rate charges, while traffic sensitive costs, such as switching should be recovered from traffic sensitive or minutes of use charges.

- C. ISSUE:** What time period of revenues should be used and how do you match revenues to costs identified in Issues A and B?

RESPONSE:

The time period for revenues should be an annual period for which the parties can gather the data in a timely manner. In order to match costs and revenues, cost studies for the groups or elements can be performed.

- D. ISSUE:** Should costs and revenues be identified by groups of services or individual elements? Propose suitable groups or services.

RESPONSE:

For switched access and high volume special access services, costs and revenues should be identified as individual elements. For low volume special access services, groups of services can be used for costs and revenues.

II. Rate Levels and Structures

- A. ISSUE:** What is the appropriate structure for access rates in Tennessee?

RESPONSE:

The appropriate structure for access rates in Tennessee is:

- Adopt the FCC access rate elements except the Presubscribed Interexchange Carrier Charge (“PICC”) adopted by the FCC in its May 16, 1997 Order, and in its place, adopt an intrastate Carrier Charge (“CC”);**
- Ensure that any non-traffic sensitive costs in local switching (including the line card, protector and main distribution frame) for a provider are recovered from a flat rate pool;**

- **Convert transport to the structure advocated by the FCC in the Access Reform Order, shifting the revenue differential between the current transport structure and proposed structure to a flat rate pool;**
- **Create a flat rate pool to recover current carrier common line costs, non-traffic sensitive costs contained in local switching, and the revenue differential between the current transport rate structure and the FCC's proposed transport structure; and**
- **Recover the flat rate pool from an intrastate subscriber line charge ("SLC") and an intrastate carrier charge ("CC") assessed on all intrastate toll carriers based upon each toll carrier's intrastate originating and terminating minutes of use.**

The intrastate access rate elements should have the following components:

- 1. Subscriber Line Charge ("SLC")**
- 2. Carrier Charge ("CC")**
- 3. Local Switching**
- 4. Tandem Switching**
- 5. Direct Trunked Transport**
- 6. Common Transport**
- 7. Multiplexing**
- 8. Tandem Switch Trunk Port**
- 9. Common Channel Signaling (SS7)**

- B. ISSUE:** Should Tennessee mirror the interstate structure? (i.e. use of flat rate charges to recover fixed costs and usage sensitive rates to cover variable costs).

RESPONSE:

Tennessee should mirror the FCC's access rate structure except for the Presubscribed Interexchange Carrier Charge ("PICC") adopted by the FCC in its May 16, 1997 Order, and adopt, in its place, an intrastate Carrier Charge ("CC");

Further, Sprint supports the concept that costs should be recovered in the manner in which they were incurred. Flat rate costs, such as the loop, should be recovered from flat rate charges, while traffic sensitive costs, such as switching should be recovered from traffic sensitive or minutes of use charges. Sprint supports the implementation of the new access rate structure with or without a reduction in access rate levels.

- C. **ISSUE:** Determine appropriate rates that will be charged for access services. (If intrastate structure and/or rates are different than interstate, how can "tariff shopping" be avoided?)

RESPONSE:

Access rates should eventually move to local interconnection rates using a TELRIC-based costing methodology for the pricing of local interconnection rates. The movement to a TELRIC-based costing methodology for access services should be timed to correspond with amounts available from an explicit source, such as the universal service fund. Therefore, the parity in pricing between jurisdictions will be maintained and tariff shopping will be less likely.

- D. **ISSUE:** What should the relationship of access rates to local interconnection rates be in order to prevent tariff shopping (arbitrage)?

RESPONSE:

Assuming that the same rate structure exists for access and local interconnection, the rates for switching, the rates for transport and termination of local traffic and the rates for the transport of toll traffic should converge. If a price differential exists, an incentive for pricing arbitrage between transport and termination of local traffic and transport and termination of toll traffic is created. Carriers will be given the incentive to creatively figure out ways to classify all traffic to the category with the lowest rate.

- E. **ISSUE:** What method or standard should be used to determine if access rates are non-discriminatory and competitively neutral?

RESPONSE:

ILEC access prices, terms and conditions are described within the ILEC's intrastate access tariff. If cost-based rates are established and used in the development of the tariffed rates, then access rates should be non-discriminatory and competitively neutral. Any purchaser of access services can order services from the tariff and receive the same prices, terms, and conditions as any other purchaser.

- F. **ISSUE:** If access rates are reduced, should LECs be allowed to increase other rates to offset the revenue decrease from access services?

RESPONSE:

If access rates are reduced to remove implicit subsidies simultaneous with the implementation of an appropriately designed universal service funding mechanism, then rates should not otherwise be allowed to increase.

Although the Telecommunications Act of 1996 requires that universal service support be “specific, predictable, and sufficient,” it does not require, nor did it intend for, local exchange carriers to eliminate implicit universal service subsidy from its access charges without the existence of an alternative mechanism to recover the cost of providing universal service. The local exchange carrier should not be expected to absorb the revenue difference between current access prices and cost-based rates. As a price regulated local company, Sprint has the pricing flexibility to change access rates independent of a universal service mechanism.

III. Other Issues

- A. ISSUE: What implicit subsidy, if any, is present in access charges?**

RESPONSE:

To the extent that access rates exceed TELRIC rates, implicit subsidies are present in access charges.

- B. ISSUE: If there is an implicit subsidy, at what level, if any should it be continued and how should it be made explicit?**

RESPONSE:

Tennessee State Law (TCA Section 65-5-207) identifies specific steps that should be taken to transfer implicit subsidy to explicit subsidies through the establishment of a state USF.

- C. ISSUE: What is the effect of the Court's Stay on BellSouth's earnings in regard to access charge?**

RESPONSE:

The parties involved in that proceeding are more familiar with legal status and should comment on this issue.

- D. ISSUE:** Will changes in Access Reform necessitate changes in state laws or TRA rules? If so, please be specific.

RESPONSE:

The coordinated outcomes from the Universal Service and Access Reform proceedings may result in the need to change state laws or TRA rules. For example, the guidelines for competing telecommunications service providers referenced in Item I. D. above could be revised and finalized as a result of these dockets.

PROPOSED SCHEDULE FOR ACCESS CHARGE REFORM

Docket No. 97-00889

April 7, 1998	Pre-hearing Conference
May 14, 1998	Discovery requests due
May 18, 1998	Discovery responses due
June 1, 1998	Direct testimony due
June 12, 1998	Rebuttal testimony due
July 13-17, 1998	Hearing
August 11, 1998	TRA Decisions